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25th ANNUAL McGRAW-HILL SURVEY OF
OVERSEAS OPERATIONS OF U.S. INDUSTRIAL COMPANIES, 1983-85

Faced with a world economy that has stagnated for several years, American industrial companies are planning a sustained cutback in their foreign capital spending.

According to McGraw-Hill's "25th Annual Survey of Overseas Operations of U.S. Industrial Companies," American manufacturing and petroleum firms plan to slice their purchases of property, plant and equipment abroad by 2% this year to $33.8 billion (Table I). In 1984, companies plan a further reduction of 3%; and in 1985 they expect to slash another 12% from overseas capital budgets. After adjustment for inflation, the planned decreases could translate into drastic real cuts in overseas capital spending by American companies.

If these plans are realized, it would result in four consecutive years of foreign spending cutbacks dating from 1982 when nominal spending dropped 2%. These plans also amount to a significant turnaround from 1979 and 1980 when foreign capital spending zoomed 23% and 30%, respectively. (In 1981, spending edged up 2%.)

The survey's projections of soft foreign capital spending contrast with U.S. firms' domestic expenditure plans: U.S. manufacturing companies responding to a separate McGraw-Hill survey said they would hike 1984 outlays at home a hefty 12%. That compares

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with no change in overseas spending projected by manufacturers and a 6% cut by petroleum firms. It thus appears that U.S. executives are not convinced that a sustainable recovery is under way overseas. Given high interest rates, stagnating industrial production, low operating rates, and lethargic recovery abroad, such a view is not surprising.

The foreign spending projections are based on a survey conducted in July and August among 80 U.S. manufacturing and petroleum companies that account for 31% of U.S. foreign capital spending. Expenditures refer to firms' majority-owned foreign affiliates. Dollar figures cited in this report represent foreign capital spending by all U.S. industrial firms, not just those companies included in the survey.

Petroleum Spending Takes a Dive

Projections of overall U.S. capital spending abroad point to a slowdown in coming years. The total figures, however, fail to reveal the huge gap between plans in the petroleum industry versus those in manufacturing: U.S. petroleum companies plan to slash foreign capital spending through 1985 at a much more rapid rate than do foreign affiliates of manufacturing firms.

If all plans are realized, foreign affiliates of U.S. oil firms will reduce spending on property, plant and equipment from $17.7 billion in 1982 to $13.2 billion in 1985--a drop of 26%. Meanwhile, U.S. manufacturing affiliates abroad would cut spending 4.5% during that same period (Table I). The result is that while overseas petroleum spending for 1983 is expected to be 13% higher than manufacturing, a reversal should occur by 1985 when manufacturing expenditures should exceed those of petroleum by 20%.

Why U.S. oil executives have caught retrenchment fever in their overseas capital budgeting is not hard to figure out. Crude oil prices have dropped 15% since January, the oil industry's foreign refining capacity is operating at sub-par levels (Table V), and world petroleum demand has shrunk due to world economic stagnation and conservation.

Overseas Spending Sails to Calmer Waters

An important geographic shift in overseas capital spending by the U.S. petroleum industry is now in the making. Driven by political instability and foreign exchange constraints in developing countries, U.S. oil companies are shifting investment to the European Economic Community (EEC). Petroleum spending in the EEC is projected to grow 18% from 1982 to 1985. This comes at the expense of sizable capital expenditures by U.S. oil firms in Asia and Africa in the last few years (Table II).

U.S. capital spending abroad is also shifting out of Latin America, the region of the world most heavily weighed down by external debt. As indebted Latin American countries give top priority to repaying banks, U.S. nonfinancial affiliates' access to limited hard currency becomes increasingly difficult. These affiliates, therefore, have difficulty importing machinery and raw materials. One result could be that corporate treasurers, tired of pumping cash into such subsidiaries, will turn increasingly to investing in the EEC and Canada.

The survey supports this finding. Between 1982 and 1985, U.S. manufacturing affiliates plan to cut capital spending in Latin America by 5%. Oil companies plan to slash purchases of property, plant and equipment there by a massive 56% by 1985.

During the same period, the EEC and Canada are the only two regions of the world projected to realize any increase in capital spending by U.S. affiliates. In Canada, U.S. capital spending in manufacturing is slated to spurt 21% from 1982 to 1985. In the EEC, purchases of property, plant and equipment by majority-owned manufacturing affiliates should rise by 13% through 1985.

Given that Canada and the EEC have been bogged down by recession in the past couple of years, U.S. spending plans--though not exceptionally robust--do reflect a certain amount of optimism about future business in these regions. Industrial production in Europe has dipped 3% since early 1981, and in Canada industrial output plummeted 10% in two years. Moreover, while the European and Canadian economies are expected to recover in the next couple of years, recovery may proceed at a painfully slow pace. Nonetheless, U.S. companies do plan modest spending increases there.

There is one exception to the generally buttoned-down tone of U.S. overseas capital spending: "Other" manufacturing plans to boost spending in Canada in the next three years by 149% (Table II). These plans probably stem from anticipated exploitation of Canada's vast timber resources and the recent recovery of paper and pulp sales in the U.S.

Foreign Demand Waits for Fairer Weather

The survey also found that most U.S. manufacturers and oil companies expect sales in key foreign markets to drop in 1983. Only the transportation equipment industry expects sales of foreign affiliates to rise this year (Table IX). However, 1984 is another

story. Foreign affiliate sales next year are projected to spurt 22%. If those projections materialize, then U.S. firms might revise foreign capital budgets upward by 1985.

Another reflection of weak demand, and another reason for U.S. affiliates to hold back capital outlays, is the low level of capacity utilization abroad (Table V). At the end of last year U.S. foreign affiliates were running their plants at a low 65% of capacity; by the end of this year they project operating rates to remain at that depressed level. For capital spending to pick up, capacity utilization would have to mushroom 15 to 20 percentage points, not a very likely near-term scenario given the weakness of recovery in key overseas markets.

Finally, because overseas capital spending has turned soft and markets remain weak, U.S. affiliates will be investing less than last year in pollution control equipment. They plan to decrease this type of spending by 27% this year to $505 million (Table X). Also, pollution control expenditures as a share of total overseas capital spending by U.S. firms will edge down to 1% in 1983.

In general, companies faced with recessionary markets and reduced profits cut expenditures that don't contribute to boosting the bottom line. Nevertheless, it is anticipated that pollution control expenditures will bounce back strongly next year as overseas profits recover with the quickening tempo of overseas economic recovery(Table VIII).

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TABLE I

OVERSEAS CAPITAL EXPENDITURES BY AMERICAN COMPANIES
(Millions of Dollars)

INDUSTRY	Actual* 1982	Planned 1983	% Change 1982-83	Planned 1984	% Change 1983-84	Planned 1985	% Change 1984-85
Primary & Fabricated Metals	$ 861	$ 597	-31%	$ 768	29%	$ 875	14%
Machinery	4,160	3,692	-11	2,828	-23	2,723	-4
Electrical Machinery	1,207	1,287	7	1,419	10	1,430	1
Transportation Equipment	3,805	3,497	-8	3,581	2	3,838	7
Chemicals	2,886	3,184	10	3,346	5	3,062	-8
Food & Beverages	1,323	1,437	9	1,591	11	1,519	-5
Other Manufacturing**	2,391	2,195	-8	2,431	11	2,439	0
ALL MANUFACTURING	16,633	15,889	-4	15,964	0	15,886	0
Petroleum	17,743	17,906	1	16,900	-6	13,184	-22
ALL INDUSTRY	34,376	33,795	-2	32,864	-3	29,070	-12

NOTE: Figures refer to foreign affiliates of U.S. companies in which a majority share is owned by U.S. companies. Data for 1983, 1984, 1985 are based on a sample, but represent spending by all U.S. majority-owned foreign affiliates.

*SOURCE: U.S. Dept. of Commerce

**Includes paper, textiles, instruments, rubber, and stone, clay, glass.

TABLE II

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

	CANADA				LATIN AMERICA			
	Estimated	-----Planned------			Estimated	-----Planned------		
INDUSTRY	1982	1983	1984	1985	1982	1983	1984	1985
Primary & Fabricated Metals	$ 92	$ 57	$ 86	$ 98	$ 308	$ 231	$ 273	$ 384
Machinery	425	431	313	198	918	724	661	848
Electrical Machinery	81	83	117	100	70	76	34	33
Transportation Equipment	443	620	461	502	830	621	573	706
Chemicals	265	256	216	169	416	536	478	507
Food & Beverages	410	472	374	369	131	89	193	178
Other Manufacturing	495	890	1,195	1,234	546	344	414	410
ALL MANUFACTURING	2,211	2,809	2,762	2,670	3,219	2,621	2,626	3,066
Petroleum	4,511	4,086	5,152	4,100	1,775	1,481	1,342	790
ALL INDUSTRY	6,722	6,895	7,914	6,770	4,994	4,102	3,968	3,856

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

	EEC*				EUROPE OTHER THAN EEC			
	Estimated	-----Planned-------			Estimated	------Planned------		
INDUSTRY	1982	1983	1984	1985	1982	1983	1984	1985
Primary & Fabricated Metals	$ 176	$ 126	$ 175	$ 273	$ 284	$ 143	$ 179	$ 29
Machinery	1,506	1,539	868	1,372	14	29	12	34
Electrical Machinery	808	861	984	1,008	119	130	166	157
Transportation Equipment	985	1,230	1,409	1,453	1,255	751	685	767
Chemicals	1,182	1,524	1,699	1,450	126	107	121	102
Food & Beverages	722	821	971	908	0	0	0	0
Other Manufacturing	864	767	608	609	69	7	0	0
ALL MANUFACTURING	6,243	6,868	6,714	7,073	1,867	1,167	1,163	1,089
Petroleum	3,693	4,361	5,587	4,371	563	434	121	142
ALL INDUSTRY	9,936	11,229	12,301	11,444	2,430	1,601	1,284	1,231

*Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, United Kingdom

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

	MIDDLE EAST*				AUSTRALIA, NEW ZEALAND, SOUTH AFRICA			
	Estimated	-----Planned------			Estimated	-------Planned--------		
INDUSTRY	1982	1983	1984	1985	1982	1983	1984	1985
Primary & Fabricated Metals	$ 0	$ 0	$ 0	$ 0	$ 59	$ 32	$ 46	$ 77
Machinery	631	270	382	0	134	85	108	36
Electrical Machinery	13	20	12	14	49	55	55	61
Transportation Equipment	5	5	5	5	194	177	281	264
Chemicals	1	26	44	51	61	64	78	51
Food & Beverages	11	12	14	13	27	35	31	38
Other Manufacturing	5	0	0	0	192	52	91	73
ALL MANUFACTURING	666	333	457	83	716	500	690	600
Petroleum	894	620	574	384	819	903	328	256
ALL INDUSTRY	1,560	953	1,031	467	1,535	1,403	1,018	856

*Aden, Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

	JAPAN-ASIA (OTHER THAN MIDDLE EAST)				AFRICA (OTHER THAN MIDDLE EAST AND SOUTH AFRICA)			
	Estimated	--------Planned-------			Estimated	-----Planned------		
INDUSTRY	1982	1983	1984	1985	1982	1983	1984	1985
Primary & Fabricated Metals	$ 6	$ 4	$ 5	$ 9	$ 3	$ 2	$ 3	$ 5
Machinery	415	445	263	229	117	169	171	0
Electrical Machinery	47	42	21	21	20	20	29	29
Transportation Equipment	91	93	167	142	0	0	0	0
Chemicals	817	580	638	607	18	40	71	125
Food & Beverages	20	7	8	13	0	0	0	0
Other Manufacturing	216	135	123	113	4	0	0	0
ALL MANUFACTURING	1,612	1,306	1,225	1,134	162	231	274	159
Petroleum	2,124	2,813	2,123	1,659	3,364	3,208	1,672	1,482
ALL INDUSTRY	3,736	4,119	3,348	2,793	3,526	3,439	1,946	1,641

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TABLE III

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS, AND MACHINERY & EQUIPMENT

	Estimated 1982			Planned 1983		
INDUSTRY	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	8%	8%	84%	2%	8%	90%
Machinery	2	33	65	3	32	65
Electrical Machinery	2	10	88	2	11	87
Transportation Equipment	5	30	65	4	27	69
Chemicals	9	27	64	9	29	62
Food & Beverages	0	13	87	0	17	83
Other Manufacturing	4	13	83	1	12	87
ALL MANUFACTURING	4	25	71	4	24	72
Petroleum	1	2	97	0	0	100
ALL INDUSTRY	3	13	84	2	12	86

TABLE III (Cont'd)

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS, AND MACHINERY & EQUIPMENT

	------Estimated 1984----------			--------Planned 1985----------		
INDUSTRY	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	5%	8%	87%	4%	13%	83%
Machinery	0	10	90	0	14	86
Electrical Machinery	1	9	90	1	8	91
Transportation Equipment	6	27	67	5	25	70
Chemicals	11	26	63	13	31	56
Food & Beverages	0	17	83	0	15	85
Other Manufacturing	1	10	89	1	10	89
ALL MANUFACTURING	4	17	79	4	19	77
Petroleum	0	0	100	0	0	100
ALL INDUSTRY	2	8	90	2	9	89

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TABLE IV

FOREIGN AFFILIATES' CAPACITY CHANGE

	% Change In Physical Capacity	
	1982 Actual	1983 Estimated
Primary & Fabricated Metals	5%	3%
Machinery	2	7
Electrical Machinery	8	6
Transportation Equipment	4	2
Chemicals	2	5
Food & Beverages	0	0
Other Manufacturing	-6	2
ALL MANUFACTURING	2	4
Petroleum	-6	4
ALL INDUSTRY	-2	4

TABLE V

OPERATING RATES

INDUSTRY	Expected Dec. 1982	Dec. 1983
Primary & Fabricated Metals	72%	73%
Machinery	61	60
Electrical Machinery	68	74
Transportation Equipment	75	76
Chemicals	73	72
Food & Beverages	73	77
Other Manufacturing	77	79
ALL MANUFACTURING	70	71
Petroleum	61	60
ALL INDUSTRY	65	65

TABLE VI

EXPORT SALES EXPECTATIONS OF AMERICAN MANUFACTURERS
(Millions of Dollars)

INDUSTRY	Actual* 1982	Expected 1983	% Change 1982-83	Expected 1984	% Change 1983-84
Primary & Fabricated Metals	$ 7,916	$ 7,337	-7%	$ 8,162	11%
Machinery	48,039	44,357	-8	47,839	8
Electrical Machinery	11,285	11,381	1	12,081	6
Transportation Equipment	27,824	32,003	15	36,649	15
Chemicals	19,891	17,343	-13	19,147	10
Other Manufacturing	31,706	30,820	-3	32,334	5
ALL MANUFACTURING	146,661	143,241	-2	156,212	9

*SOURCE: U.S. Dept. of Commerce

TABLE VII

EXPECTED PROFIT MARGINS ON SALES,
OVERSEAS SUBSIDIARIES vs. U.S.

INDUSTRY	1983 % of Companies Answering Higher	Lower	Same	1984 % of Companies Answering Higher	Lower	Same
Primary & Fabricated Metals	86%	0%	14%	72%	14%	14%
Machinery	56	33	11	67	33	0
Electrical Machinery	17	83	0	17	66	17
Transportation Equipment	67	33	0	56	44	0
Chemicals	46	36	18	60	40	0
Food & Beverages	0	100	0	0	100	0
Other Manufacturing	7	71	22	14	57	29
ALL MANUFACTURING	43	45	12	45	44	11
Petroleum	25	50	25	50	50	0
ALL INDUSTRY	42	45	13	46	44	10

TABLE VIII

EXPECTED OVERSEAS PROFIT MARGINS ON SALES,
1983 vs. 1982, 1984 vs. 1983

INDUSTRY	-----1983 vs. 1982------ % of Companies Answering Higher	Lower	Same	------1984 vs. 1983----- % of Companies Answering Higher	Lower	Same
Primary & Fabricated Metals	43%	57%	0%	86%	14%	0%
Machinery	0	89	11	89	11	0
Electrical Machinery	17	83	0	83	0	17
Transportation Equipment	67	22	11	67	33	0
Chemicals	33	50	17	64	18	18
Food & Beverages	34	33	33	34	33	33
Other Manufacturing	29	57	14	71	7	22
ALL MANUFACTURING	32	58	10	75	14	11
Petroleum	75	0	25	75	25	0
ALL INDUSTRY	35	54	11	75	15	10

TABLE IX

EXPECTED SALES OF FOREIGN AFFILIATES

INDUSTRY	-------Expected % Change------ 1982-83	1983-84
Primary & Fabricated Metals	-4%	14%
Machinery	-8	21
Electrical Machinery	-7	11
Transportation Equipment	8	17
Chemicals	-3	11
Food & Beverages	-4	5
Other Manufacturing	-1	7
ALL MANUFACTURING	-3	15
Petroleum	-17	30
ALL INDUSTRY	-10	22

TABLE X

INVESTMENT FOR AIR & WATER POLLUTION CONTROL

INDUSTRY	Overseas Pollution Control Expenditures (Millions of Dollars) Actual 1982	Planned 1983	% Change 1982-83	Pollution Control Expenditures as Percent of Capital Spending ----Overseas--- Actual 1982	Planned 1983	-----U.S.*----- Actual 1982	Planned 1983
Primary & Fabricated Metals	$ 31	$ 30	-3%	4%	5%	6%	6%
Machinery	48	45	-6	1	1	2	1
Electrical Machinery	12	12	0	1	1	2	2
Transportation Equipment	12	11	-8	0	0	1	1
Chemicals	92	70	-24	3	2	7	7
Food & Beverages	31	44	42	2	3	7	5
Other Manufacturing	147	68	-54	6	3	5	6
ALL MANUFACTURING	373	280	-25	2	2	4	4
Petroleum	322	225	-30	2	1	5	4
ALL INDUSTRY	695	505	-27	2	1	4	4

*SOURCE: 16th Annual McGraw-Hill Survey of Pollution Control Expenditures

TABLE X (Cont'd)

INVESTMENT FOR AIR & WATER POLLUTION CONTROL

	Overseas Pollution Control Expenditures			
	--Millions of Dollars--		----------% Change-------	
INDUSTRY	1984	1985	1983-84	1984-85
Primary & Fabricated Metals	$ 16	$ 19	-47%	19%
Machinery	29	31	-36	7
Electrical Machinery	14	14	17	0
Transportation Equipment	19	21	73	11
Chemicals	72	65	3	-10
Food & Beverages	49	46	11	-6
Other Manufacturing	88	88	29	0
ALL MANUFACTURING	287	284	3	-1
Petroleum	438	NA	95	NA
ALL INDUSTRY	725	NA	44	NA